

**DOCKET SECTION  
BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON, D.C. 20268-0001**

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POSTAL RATE AND FEE CHANGES, 1997

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Docket No. R97-1

**RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS FRONK  
TO INTERROGATORIES OF  
NATIONAL ASSOCIATION OF PRESORT MAILERS  
(NAPM/USPS-T32-1 - 6)**

The United States Postal Service hereby files the responses of David Fronk to the following interrogatories of the National Association of Presort Mailers:

NAPM/USPS-T32-1 through 6, filed September 17, 1997:

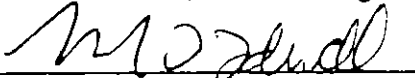
The interrogatories are stated verbatim and are followed by the responses.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.  
Chief Counsel, Ratemaking



Michael T. Tidwell

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October 1, 1997

RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK TO  
INTERROGATORIES OF THE NATIONAL ASSOCIATION  
OF PRESORT MAILERS

NAPM/USPS-T32-1. Confirm that the rates for First-Class flats under the current rate structure and under the USPS proposal are and would be as set forth below (taking into effect the single ounce rate, the additional ounce rate, the nonstandard surcharge and the 4.6¢ heavyweight discount which the USPS would eliminate under its R97-1 Proposal), and please explain your answer if you cannot so confirm.

FIRST CLASS FLATS

	<u>Current</u>			<u>USPS R97-1 Proposal</u>		
	1 oz.	2 oz.	3 oz.	1 oz.	2 oz.	3 oz.
Single Piece Flats	43¢	55¢	78¢	49¢	56¢	79¢
Retail Presort Flats	34.5¢	52.5¢	70.9¢	42¢	54¢	77¢
Auto Basic Flats	34¢	52¢	70.4¢	41¢	53¢	76¢
Auto 3/5 Dig Flats	32¢	50¢	68.4¢	39¢	51¢	74¢

RESPONSE: Confirmed.

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NAPM/USPS-T32-2. Confirm that USPS Witness Daniel at Exhibit USPS-29C in this proceeding provided the following First-Class unit mail processing and delivery cost estimates for First-Class flats.

Single Piece - 40.9560¢  
Presort - 30.2723¢  
Automation Basic - 31.2758¢  
Automation 3/5-Digit - 17.8857¢

RESPONSE: Confirmed for Single Piece. Not confirmed for the other three costs, which are changing slightly per the attached revised Exhibit USPS-29C, which is also being filed under separate cover. Please see my response to NAPM/USPS-T32-3 for the context of these numbers.

### First-Class Unit Cost Estimates

	MP + D Costs	Mail Processing Costs	Delivery <sup>3/</sup> Costs
<b>Letters</b>			
Single Piece	16.7434	11.7424 <sup>4/</sup>	5.0010 *
Bulk Metered	13.6851	9.5391 <sup>5/</sup>	4.1460
Presort	11.3453	7.1993 <sup>1/</sup>	4.1460
<b>Automation</b>			
Basic	9.0298	5.3188 <sup>1/</sup>	3.7110
3-Digit	8.1997	4.5477 <sup>1/</sup>	3.6520
5-Digit	6.5995	3.0265 <sup>1/</sup>	3.5730
Carrier Route	6.4170	2.2910 <sup>1/</sup>	4.1260
<b>Cards</b>			
Single Piece	11.2429	6.8879 <sup>1/</sup>	4.3550
Presort	7.7568	4.7178 <sup>1/</sup>	3.0390
<b>Automation</b>			
Basic	6.2803	3.4693 <sup>1/</sup>	2.8110
3-Digit	5.7324	2.9574 <sup>1/</sup>	2.7750
5-Digit	4.6735	1.9475 <sup>1/</sup>	2.7260
Carrier Route	3.4404	0.6204 <sup>1/</sup>	2.8200
<b>Flats and Parcels</b>			
Single Piece	40.9560	35.9550 <sup>4/</sup>	5.0010 *
Presort	30.2683	25.3783 <sup>2/</sup>	4.8900
<b>Automation</b>			
Basic	31.2718	26.3818 <sup>2/</sup>	4.8900
3/5-Digit	17.8817	12.9917 <sup>2/</sup>	4.8900

\* Letter, Flat and Parcel Delivery costs have been aggregated for Single Piece.

<sup>1/</sup> Postal Service witness Hatfield (USPS-T-25)

<sup>2/</sup> Postal Service witness Seckar (USPS-T-26)

<sup>3/</sup> Postal Service witness Hume (USPS-T-18)

<sup>4/</sup> From USPS LR-H-106.

<sup>5/</sup> From USPS LR-H-106. However, after the completion of rate design, this number was revised to 10.5814, for a total of 14.7274. See USPS LR-H-106.

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NAPM/USPS-T32-3. USPS witness Daniel shows more than a 23¢ unit cost difference between First-Class single piece flats and First-Class automated 3/5 Digit flats. Under your proposal in this proceeding, the difference between the resulting rates for First-Class single piece flats and First-Class automated 3/5 Digit flats is 10¢ in the case of one ounce flats, and 5¢ in the case of two ounce and three ounce flats. Why did you propose to pass through such a small percentage of the cost savings of automated 3/5 Digit flats? Please explain your answer.

RESPONSE: The difference of 23 cents that you compute does not isolate the costs avoided by worksharing and is not the appropriate benchmark to use because it focuses on full cost differences, that is, it includes cost differences not associated with worksharing. The single piece flat cost includes "dirty" mail (pieces featuring handwritten and incorrect or incomplete addresses). Please see my testimony at pages 19-20.

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NAPM/USPS-T32-4. You stated at page 29 of your testimony that "bulk automation flat rates are selected primarily to preserve the appropriate rate relationships between letters and flats in the automated arena, and between automation flats and the non-automated presort rate that applies to both letters and flats."

- a. Why is the preservation of these relationships more important than the cost difference between rate categories of First-Class flats?
- b. If the mailer can perform an element of mail processing of First-Class flats for less than half the cost of the USPS performing such function, is it more important to retain these current rate relationships than it is to set rates at a level which cause the more efficient mail processor to perform the work? Please explain your answer.

RESPONSE:

- (a) As Exhibit USPS-29C (cited in NAPM/USPS-T32-2) shows, flats are significantly more expensive to process than letters. Once the rate proposal for automated letters was developed based on the bulk metered benchmark and cost differences, the automated flat pricing proposal was developed to reflect the fact that flats are more expensive to process than automated letters. With the proposed rate relationships, barcoded flats pay more postage than barcoded letters, and barcoded flats pay less postage than nonautomated presort flats.
- (b) Please see my response to NAPM/USPS-T32-3.

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NAPM/USPS-T32-5. What percentage of First-Class flats were 3 ounces or greater in FY 1996?

RESPONSE: The weight increments available provide data on pieces weighing more than 2 ounces and on pieces weighing more than 3 ounces. The number weighing 3 ounces or more straddles two weight increments and is not available. Approximately 61 percent weigh more than 2 ounces, and approximately 39 percent weigh more than 3 ounces.

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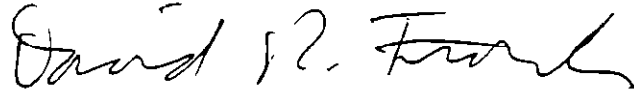
NAPM/USPS-T32-6. Confirm that the proposed elimination of the 4.6¢ heavy piece discount for First-Class presort and automated mail will have a significant adverse effect on the volume of presorted and automated First-Class flats received by the USPS in FY 1998. If you cannot confirm this fact, explain why.

RESPONSE: Taken by itself, the elimination of the heavy piece discount would likely decrease the number of presorted First-Class Mail flats just as an increase in the discount would likely increase the volume. Nonautomated presort letters and flats pay the same rate and are forecast together, making it difficult to isolate the impact of the heavy piece discount alone. The magnitude of the overall effect of eliminating this discount on automated presort flat volume also depends on factors such as the relative price change between nonautomated and automated presort flats.



DECLARATION

I, David R. Fronk, hereby declare, under penalty of perjury, that the foregoing Docket No. R97-1 interrogatory responses are true to the best of my knowledge, information, and belief.

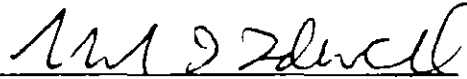


David R. Fronk

10-1-97

Date

I hereby certify that I have this date served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.

A handwritten signature in black ink, appearing to read "Michael T. Tidwell", written over a horizontal line.

Michael T. Tidwell

475 L'Enfant Plaza West, S.W.  
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October 1, 1997